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Indian Perspective of Growth and Development of Retail Banking

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ABSTRACT
All banks have adopted the retail banking business model for a number of reasons, including their sizable customer base, variety of product offerings, better pricing and profitability, the ability to cross-sell and up-sell financial and non-financial products for increased per-customer revenue, and, of course, a better risk proposition. In response to the shifting paradigm of technology as the driver for the explosion of retail banking, banks are implementing a variety of strategies to increase their share of the customer's wallet. These strategies include redesigning their traditional business silos, re-engineering existing products, and creating new products, services, channels, and relationships.
Key words: *retail banking, customer, product offering*

I. INTRODUCTION

The financial services sector is experiencing intense competition on a global scale because to the compulsive convergence of banking, insurance, mutual funds, and capital market spaces that easily integrate to deliver comprehensive financial services. Retail banking is a crucial enabler for turning these areas into profitable business models for banks all around the world. The objective is to expand and retain the client base while also boosting profitability due to the appealing margins in the retail asset area and the opportunity for fee-based income through third party distribution. Banks are dynamically reengineering their retail strategies based on four essential components: product, process, technology, and people, in order to meet their business objectives.

Market trends in other sectors of the banks' operations have an impact on how banks handle the retail market, which operates in concert with corporate business objectives. Internationally, banks are mostly driven to retail banking due to the stable income that can offset the cyclical nature of non-retail businesses. At the macro level, the popularity of retail banking is somewhat foreseeable by the performance of non-retail banking and financial market activities. Tim Clark as well as others (2006).

Some of the biggest U.S. banks now place a high strategic priority on retail banking, and the phrase "Back to Retail" has emerged as their new catchphrase. This was in stark contrast to the techniques they used in the 1990s, when banks attempted to diversify their revenue streams, minimize the importance of branch networks, and focus on a wider clientele. Major US banks' 2014 Annual Reports demonstrate their rekindled interest in retail banking, and the reports' in-depth content demonstrates both their level of trust in the model and their level of activity in various retail initiatives.

More than 38 million customers are served by Bank of America in the retail sector, and a full range of services are offered through almost 17000 ATMs and more than 5800 banking locations spread across 29 states and the District of Columbia. The bank has developed into the top issuer of credit and debit cards in the country, the largest issuer of checking and savings accounts, the top supplier of home equity loans, and the fifth largest originator of consumer mortgages.

The total assets of the retail banking sector in India increased at a rate of 120% in 2014, reaching a value of $87 billion. The expansion of the retail banking industry has contributed to the expansion of the banking industry as a whole.

THE INDIAN SCENARIO

All Indian banks have adopted the retail banking business model due to a number of comforting factors for the banks, including the acquisition of a sizable customer base, the availability of a wide range of products, better pricing and profitability, the opportunity to cross-sell and up-sell financial and non-financial products to increase per-customer revenue, and, of course, a better risk proposition. Banks are adopting various strategies to increase their share of the customer's wallet by redesigning their traditional business silos, re-engineering existing products, and creating new products, services, channels, and relationships in response to the shifting paradigm of technology as the driver for the explosion of retail banking.

The arrival of foreign banks is what led to the development of retail banking in India. There was no clear distinction between retail and non-retail activity when it came to Public Sector Banks' (PSBs') traditional banking operations. Segmenting customers and industries became a part of banks' overall business plans. It was not undertaken in a targeted manner to offer goods and services based on particular consumer segments. In the late 1970s and early 1980s, foreign banks operating in India started the trend by releasing their consumer banking models with hybrid liability and asset products tailored to the personal market. The first financial institutions to provide these products were Standard Chartered Bank and Grindlays Bank.

The burgeoning generation of private banks has also threatened the retail banking activities of foreign banks that already have distinctly defined business strategies for retail banking. To add fuel, PSBs have aggressively joined the market, igniting a retail war and snatching up a piece of the economic action in the context of a liberalised economy and the prospects that follow for retail banking. With a win-win situation for all parties concerned, the retail battle is currently in full swing, with a focus on growing market share and clientele.

ECONOMIC AND BANKING SECTOR REFORMS

Retail banking is not a new idea or innovation in and of itself. Since the beginning of banking operations, it has existed in India. Yet, it received little attention because corporate banking was the banks' preferred goal. Large corporate entities and industries relied heavily on banks to finance their projects from independence until the 1990s because they had few other financial resources available to them. Outside market funding was subject to a number of restrictions, and the capital market was still in its infancy. There was no free run for multinational firms and joint enterprises. In addition, regulatory regulations determined which industries should receive bank sponsorship.

Hence, banks were left with no choice than to finance the corporate sector. The emergence of retail banking in India can be attributed to a variety of changes that took place on the domestic and global economic front. Together with numerous prospects, the banks faced numerous difficulties. The difficulties came in the form of falling profitability, fierce rivalry, shifting consumer tastes, and declines in conventional business lines. The chances came about as a result of numerous changes occurring on the socioeconomic and technological fronts. So, banks operating in the public, private, or international sectors started to focus a great deal of emphasis on retail banking in order to tackle the obstacles and also to capitalize on the growing prospects.

Throughout the 1990s, reforms to the financial and economic sectors were gradually put into place to fight the country's declining economic conditions. Due to the financial sector's liberalization, there are now more funding options for businesses. They can now ask any internationally famous bank, export credit organization, foreign capital market, equipment supplier, etc. for External Commercial Borrowing (ECB). Up to a predetermined amount, corporate organizations may borrow money from foreign lenders without requesting permission from the government or Reserve Bank. Also, the government has loosened the restrictions on joint ventures, which is facilitating FDI in both key and non-core economic sectors.

GLOBAL RETAIL BANKING SCENARIO

The commercial banking industry's innovation has been on display in retail banking all over the world. Two dynamic markets, China and India, have offered enormous investment prospects. The rapid increase in personal wealth, favourable demographics, the quick development of information technology, the supportive macroeconomic climate, financial market reforms, and a variety of other variables all contribute to the greater growth of retail lending in emerging economies. Banks' worldwide retail banking strategies are radically changing as they combine tactics including organic development, acquisitions, and alliances. The marketing techniques of the banks have changed paradigms as a result of this. Players in the public sector banking industry are using aggressive techniques to increase their share of the retail market by utilizing their customer bases and branch networks. Additionally, banks are pursuing cutting-edge tactics like cross-selling and bundled retail goods sales. New international players are also entering this fast-growing industry at the same time.

The growth of the retail banking industry has boosted competition from emerging industries like mutual funds. India's banking environment is in flux and changing rapidly, yet over the previous ten years, significant progress has been made. The frontline sales staff is assuming the position of a relationship personnel who is constantly under the close scrutiny of the client due to the exponential growth of touch points and complexity. A crucial part of the supply chain, namely the user interface, is completely absent at a time when channel innovation has become the norm to promote effective banking habits among clients. The banking industry had advanced towards the finest banking practices at each point of contact with the advent of deregulation.

Banking activities essentially have two facets. Corporate banking, also referred to as wholesale banking, is the first, while retail banking is the second. The financial needs of corporations, enterprises, and other financial organizations are addressed through corporate banking.

The customer in corporate or wholesale banking is a group of people rather than a living thing. On behalf of the shareholders, the company's directors manage the corporate account. The account has a very large size and occasionally exceeds billions of dollars. Cash management, general banking, and trade financing are among the services provided under corporate banking. While providing business customers with loan facilities, banks are at considerable risk. Because of this, banks form a consortium to finance the projects in cases where the loan amount is quite significant.

INDIAN RETAIL BANKING SCENARIO

In light of the fact that vindaloo, the Indian English creative dish offered in numerous restaurants throughout London, is in reality extremely hot and spicy, retail banking has been referred to as being "hotter than vindaloo." Retail banking appears to be one of the key drivers of the entire banking business in India today, as it has rapidly evolved as such and has experienced tremendous growth in recent years. The Retail Banking Report includes in-depth research & analysis of their expanding industry.

It largely involves examination of the existing situation, trend, significant problems, and difficulties in the development of the retail banking sector.

Banks, financial institutions, international banks, scholars, consultants, and researchers may all gain a better understanding of the increasing opportunities in Indian retail banking with the help of this study. The topic of retail banking is very important and relevant right now. The commercial banking sector has lately undergone a worldwide upheaval thanks to retail lending. Rapid information technology development, shifting macroeconomic conditions, financial market reform, and different micro-level supply and demand side elements are all to blame for the expansion of retail lending, especially in developing nations.

India also seen a rise in retail banking. According to estimates, almost one fifth of total bank credit was made up of retail loans. Credit is expanding rapidly in the housing market. From being a seller's market to being a buyer's market, the retail credit industry has clearly changed. All of these highlight the recent economic movement that retail banking has undergone in India. Indian banking is at a crossroads and is constantly changing, yet during the past ten years, there has been a notable improvement.

In an expanding economy like India, retail banking offers numerous options. India is regarded as the second most alluring country for retail travel. In this aspect, the expansion of the middle class in India is a significant contributing factor. It is anticipated that more Indian households will have middle- to high-income levels. In addition to having more purchasing power, the younger generation may also be more comfortable with taking on personal debt than earlier generations. The retail banking system in India is being influenced by rising consumer spending power and more lenient views on personal debt.

The aforementioned elements, when combined, indicate that the retail industry, which is still in its infancy, will grow significantly. With universal banks and financial conglomerates, potential areas of conflicts of interest tend to grow as services and delivery channels are built. Financial inclusion, responsible lending, access to credit, long-term savings, financial capacity, consumer protection, regulation, and the prevention of financial crime are some of the major policy concerns that are pertinent to the retail banking sector.

Role of IT in Retail Banking

Retail banking has grown considerably because to the development of information technology (IT) and its impressive applications in the banking and financial sectors. The public sector banks were in a favorable position when the banking sector reforms were enacted due to their extensive physical branch network in both urban and rural areas. Private and international banks used Technology as a key, cost-effective instrument in their expansion effort to compete with public sector banks.

IT has enabled banks to reach and service a large number of individual clients in the quickest feasible time and to lower the cost of banking transactions because the success rate in retail banking is reliant on the volume of customer base. A physical transaction costs the ICICI bank between Rs. 30 and Rs. 50, a cheque transaction between Rs. 13 and Rs. 17, and a debit transaction merely between Rs. 2 and Rs. 5. In order to effectively grab the market, private and foreign banks tried to ride the technology wave. Private and foreign banks have been observed to heavily encourage their clients to switch to virtual banking by providing incentives and promotional plans.

Some banks charge a premium to discourage physical branch banking. Together with websites, they also launched ATMs and online banking. Using the phone, a mobile device, etc. in a significant degree by networking and computerising their branches. Technology has made it possible to integrate ATMs, the Internet, phone banking, and mobile banking so that banking transactions are reflected regardless of the clients' choice of convenient media. The growth of the Indian software industry aided these banks' cause as well. Large Banks have partnerships with software developers to create the necessary software.

GROWTH OF RETAIL INDUSTRY

The retail sector in India is one of the fastest growing, and this growth is attributed to a number of factors, including a sizable market, rising income levels, surplus disposable income, increased awareness due to the expansion of cable television channels and advertisements, and the entry of international brands. The retail market is thought to be worth roughly Rs. 9,00,000 crore and is expanding at a rate of 8.5% annually. According to market data, it is predicted that the retailing sector will increase by 2 to 10% during the next five years. Also, the retail sector's expansion has expanded job prospects, which in turn has raised the demand for retail and consumer goods. Customers have been drawn in by banks and retail companies'.

They focus mainly on young consumers, such as BPO employees, who have a lot of disposable income, quickly change their preferences, and have very little free time. For instance, Standard Chartered Bank has created credit cards that are 43% smaller in size than typical cards to make buying simple, easy, and convenient. Large banks like HDFC, ICICI, and SBI have implemented incentive points and cash back programmes on credit card purchases that may be redeemed for free gifts. In order to allow clients to pay their credit card balances in interest-free installments, banks have established strategic relationships with retail firms. The surge in construction is a result of the expansion of the retail sector.

GROWTH OF ATMS

In the initial period, each bank had its own network of ATMs which were utilised solely only by its account users. However to minimise expenses, cover bigger geographical area and for the convenience of the consumers, banks have struck an arrangement amongst themselves wherein users can utilise the ATMs of other banks where they have no account. For instance, SBI and ICICI have a Memorandum of Understanding (MoU) that allows their clients to use each other's ATM networks.

Customers will have access to a network of 3793 ATMs scattered across 600 locations around the nation thanks to this MoU. Customers of both banks may now access 2000 ATMs according to a second Agreement that ICICI Bank and Andhra Bank signed. Other banks have also come into a mutual agreement in this regard, allowing clients to utilise the ATMs of other banks by paying minimal fees, in addition to ICICI bank and SBI. Swadhan scheme is the name of this scheme. In accordance with this plan, banks have also agreed on the maximum sum that account users may withdraw from their accounts using ATMs. SBI and ICICI banks, however, have refrained from participating in this scheme.

ATMs are economical because they charge only Rs. 15 for transactions, compared to Rs. 50 for the identical transaction at a branch. Banks like Citibank and HDFC Bank penalise clients for doing banking transactions at physical branches in order to encourage them to utilize ATMs.

Table-1. Shows the number of ATMs of different banks.

Name of the Bank	Number of ATMs
ICICI	1,880
SBI and its Associates	5,067
HDFC	1,054
Andhra	330
Syndicate	660
Dena	147
UTI	101
IDBI	1,250
HSBC	297

Source: Reserve Bank of India – Report on Trends & Progress in Banking in India

Mobile Banking

All throughout the world, mobile phones have emerged as one of the most practical tools for conducting financial transactions. In India, mobile phone penetration is lower than in other nations around the world, but the market for mobile phones is expanding at an astonishing rate because to lower device and tariff prices. India has 47 million mobile subscribers, and an additional roughly two million sign up each month. Yet, due to low levels of knowledge, insufficient information, and some of the complicated processes that users find challenging to understand, very few people use mobile phones for banking transactions.

Campaigns for customer education and awareness would go a long way towards making mobile phones a useful tool for conducting financial transactions. Mobile phones are also being affected by the spread of computer viruses, which are not just hurting computer systems and the Internet. The hazards to users' privacy and security are another concern with mobile phones. The banks and cell phone providers should both solve these issues.

Since credit and debit cards are likely to be replaced by mobile phones in the future, their potential for financial transactions is very great. Companies that specialise in software development are using their skills to create mobile payment applications. C-Sam Inc. and Tata Consultancy Services (TCS) Ltd. have formed a strategic agreement to build a wireless payment platform. To provide mobile banking services, banks have partnered strategically with mobile businesses. Customers who use Reliance mobile devices can take advantage of free banking services thanks to an agreement between ICICI Bank and Reliance India Mobile.

Table-2: Retail Deposit of Banks in India (Rs. bn)

Bank's Name	**Amount**	**Growth Rate**
PNB SBJ ICICI HDFC IDBI	224.00 1112.40 998.00 380.00 70.00	17.0 19.4 29.0 22.1 11.2
Source: Reserve Bank of India – Report on Trends & Progress in Banking in India		

Housing Loan

Every bank is vying for a piece of the growing house loan market, which is on an upward swing. Housing loans actually hold a major position and make up more than 50% to 60% of all retail credit extended by practically all banks. This is so because these loans, which are backed by mortgage or property finance and have an average default rate of less than 1% yearly, are comparatively safer. Also, appealing marketing and promotional tactics used by the banks, such as free credit cards, insurance coverage, etc., help to draw in more and more clients, particularly young people (according to an ICICI and HDFC study), into home loans.

Table 3 : Size of Housing Loan of Various Banks in India (Rs. in bn)

Bank's Name	**Housing Loan Disbursed**	**Size of Total Housing Loan**	**% of Total Retail Loan Portfolio**
SBI	19.00	47,00	20.02
PNB	10.02	21.09	13.19
ICICI	79.06	223.81	55.22
HDFC	143.45	314.22	57.98
All India	295.06	750.49	45.22
Source: www.bis.org.reviewcorn, www.pubindia.com			

Nonetheless, compared to other countries, particularly industrialized countries, where it ranges from 25% to 60%, the ratio of outstanding home loans as a proportion of GDP in India is low. This is due to the fact that Indian retail banking has not yet realised all of its potential. Nonetheless, given that India has a population of over a billion, there is significant room for growth and development.

II. CONCLUSION

Retail banking in India appears to have a bright future, and the industry's traditional silos will change dramatically. All stakeholders in the banking and financial industries can benefit from the emerging customer and technological scenarios. Third party distribution, wealth management, and private banking options for the expanding mass wealthy will all have an impact on retail banking revenues.

Retailing in retail banking will be a developing sector where banks will go beyond traditional banking products to address customers' complete financial planning needs as well as their lifestyle needs. In the new scenario, integrating bank data bases with those of outside financial service providers will become the norm, and outsourcing will become a natural sales and process model in PSBs' shifting human resources paradigms. The transaction banking process will be dominated by remote channels, while relationship and advisory banking will mostly use branch formats.

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